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UNITED NATIONS OFFICE FOR PROJECT SERVICES

Annual report of the Executive Director on the activities of the United Nations Office for Project Services

Internal oversight

I. INTRODUCTION

1. Starting in 1998, the internal oversight issues of the United Nations Office for Project Services (UNOPS) have been addressed separately from those of the United Nations Development Programme (UNDP). UNDP, however, continues to provide numerous administrative services to UNOPS and many of the audit and oversight initiatives undertaken by UNDP may also affect UNOPS. For this reason, the Executive Board may wish to consider document DP/1999/... in conjunction with the present report.

2. The oversight framework for UNOPS includes three elements: (a) external audit, performed by the United Nations Board of Auditors; (b) internal audit, performed by the Office of Audit and Performance Review (OAPR) of UNDP under the terms of an agreement between the two organizations, for which UNOPS reimburses UNDP on a yearly basis for costs incurred; and (c) internal management oversight, which is directly associated with the self-financing principle by which UNOPS continues to operate.

II. BOARD OF AUDITORS

3. UNOPS is audited and reported on separately by the United Nations Board of Auditors. UNOPS reported to the Executive Board in documents DP/1997/27 and DP/1998/25 on its follow-up to the previous report of the Board of Auditors (A/51/5/Add.10) and in document DP/1999/24 on its follow-up to the current report of the Board of Auditors (A/53/5/Add.10).

III. FINDINGS OF THE OFFICE OF AUDIT AND PERFORMANCE REVIEW

4. The internal audit of UNOPS operations is carried out by the UNOPS section of the UNDP Office of Audit and Performance Review (OAPR), which includes seven posts, with one post encumbered by the Chief of the section and four by the auditors. The information presented in this section has been discussed with OAPR and reflects the views of that Office.

5. As in previous years, in 1998 OAPR conducted audits and management reviews of both headquarters and field activities. At headquarters, audits of the Procurement Review and Advisory Committee (PRAC) and the use of budget line 53 under various UNOPS-executed projects and activities were undertaken. A report on the joint UNOPS and OAPR Management Review of the UNOPS administration of the activities of limited duration (ALD) contractual mechanism was completed. Furthermore, three cases relating to allegations of wrongdoing and conflict of interest and one case of attempt to defraud were reviewed.

6. Audit of field activities included a management review of six UNOPS units away from New York (the "offices"): the Asia Office in Kuala Lumpur, the Copenhagen Office, the Geneva Office, the Central America Outpost in El Salvador, the Abidjan Office and the Nairobi Outpost of the International Fund for Agricultural Development (IFAD) Division. These audits indicated that the overall internal control system of the offices provides reasonable assurance that their operational objectives are being achieved. Most of the offices have put in place two basic components of the UNOPS decentralization strategy: first, the offices carry out the annual business planning process, which articulates the respective objectives of the offices within the framework of and in accordance with the overall objectives of UNOPS; and second, the offices have established appropriate organizational structures and staffing. Nevertheless, there are a number of common, major aspects that could be improved in order to further strengthen the operations of the offices. Most of these have organization-wide implications and pertain to the following areas: organizational description and terms of reference; assignment of projects and activities; monitoring and evaluation; staff training and learning activities; information and communication flow; and information technology. UNOPS comments indicating that many of the common issues have been or are being addressed have been incorporated in the final audit reports.

7. Other field audits covered activities carried out within the framework of projects and programmes implemented by UNOPS. The current portfolio of active projects and activities under management services agreements (MSA) is about 2,000. Among these, the following were selected: rehabilitation/regeneration and de-mining projects in Asia; one rehabilitation project and two "Africa 2000" projects in Africa; and a rehabilitation project in the subregion of the Central Asian Republics. In addition, an investigation was completed in the first quarter of 1998 concerning projects in the Latin America and the Caribbean region funded by the United Nations International Drug Control Programme (UNDCP).

8. Audits of management and other support services provided by UNDP through UNOPS under letters of agreement between the borrowing Governments and UNDP with respect to activities financed from World Bank loans were carried out as

required by the agreement between the World Bank and UNDP on the audit modality of MSAs. According to this agreement, UNDP is to provide the borrowing Governments with audited financial statements for each MSA with expenditure above $100,000 during the fiscal year under consideration. In addition, audits of the implementation in 1997 of 12 MSAs financed by the World Bank were undertaken principally at Headquarters and included three field visits.

9. In 1998, a total of 33 audit reports were issued. Of these, the 12 audit reports of the government-funded MSAs financed by the World Bank do not contain recommendations because of the special nature and purpose of the reports. Seventeen of the other 21 audit reports contained 289 recommendations. Of these, 115 were in the area of finance, 25 in personnel, 41 in administration (which includes contracts and procurement), 45 in programme and 63 in the area of management. Of the remaining four audit reports, three covered investigations, and thus contained opinions rather than specific recommendations. The report on the joint UNOPS and OAPR management review did not include specific recommendations. UNOPS agreed on 273 of the 289 recommendations, or in 94.5 per cent of the cases, and provided its response on the actions taken or contemplated to be taken to implement the recommendations contained in all the reports.

10. Major issues identified in the audit reports include the following: (a) weaknesses in the overall managerial oversight of some projects that contributed to serious shortcomings in project operations; (b) the need to reassess procedures for reviewing and approving implementation of sub-project activities by government entities, taking into consideration the potential added value of these arrangements; (c) shortcomings in the approval and management of micro-projects in one of the "Africa 2000 Network" projects; and (d) the need to strengthen the guidelines on imprest account operations and the timely submission of the monthly imprest accounts to headquarters.

11. UNOPS continues to address both the general and specific issues raised. In addition, in order to strengthen efforts to improve the oversight of project operations and activities, UNOPS has specifically arranged for a comprehensive review of certain "Africa 2000 Network" projects. This is expected to provide the means for improving the management of all these projects. Finally, UNOPS has promulgated new guidelines for the maintenance of and reporting on imprest accounts.

12. The investigation into transactions of the project imprest account pertaining to four related United Nations International Drug Control Programme (UNDCP)-funded projects in Colombia has revealed that a UNDP staff member has embezzled a considerable amount of funds from the imprest account. In March 1998 the matter was referred to the Legal Section of the UNDP Office of Human Resources Management (OHRM) for appropriate action. Following a comprehensive review, the staff member was summarily dismissed and approximately $40,000 were recovered. The case was closed in January 1999.

13. As in previous years, the results from the audit of UNOPS operations reveal some common aspects and a variety of unique features that are specific to the projects and activities being reviewed. As they do not provide a comprehensive basis from which general trends in UNOPS operations can be identified, UNOPS

must therefore endeavour to devise a diversified and continuously evolving approach that can provide the correct solution on a case-by-case basis.

IV. INTERNAL MANAGEMENT OVERSIGHT

14. The UNOPS Management Coordination Committee (MCC) oversees activities and clears UNOPS budget submissions, business plans, and key strategic directions. In addition, the financial viability of UNOPS depends upon regular monitoring of all aspects of ongoing operations. Early detection of problems and subsequent immediate corrective action are paramount to maintaining UNOPS operations within the self-financing principle. The financial performance recorded in the four years since the establishment of UNOPS is an indication of the fact that a sound framework for financial oversight and management of UNOPS is currently in place.

15. Furthermore, the UNOPS approach to risk management, described in document DP/1997/26, utilizes a mixture of preventive measures, such as monitoring mechanisms and the regular upgrading of staff skills. As reported in document DP/1999/22, the business planning process, for example, provides a means of monitoring overall performance in all aspects of UNOPS operations.

V. EXECUTIVE BOARD ACTION

16. The Executive Board may wish to take note of the present report (DP/1999/22/Add.2) on internal oversight.